



1. Introduction

1.1 In Hong Kong, taxis play a key role in the public transport network by providing personal, point-to-point mode of public transport service. At present, Hong Kong has 15 250 urban taxis, 2 838 New Territories taxis and 50 Lantau taxis, carrying about one million passengers daily. There are three types of taxi operators in Hong Kong, namely rentee-drivers, rentor-owners and owner-drivers. Rentee-drivers hire taxis from taxi owners, whereas rentor-owners do not drive their taxis but rent them out to rentee-drivers. Owner-drivers own and drive the taxis themselves and some of them might rent their taxis out to rentee-drivers for one shift.

1.2 In recent years, some taxi associations have proposed imposing a taxi fuel surcharge on passengers, through which taxis could raise fare according to the fluctuation of fuel costs outside the existing fare adjustment mechanism.¹ According to the preliminary research conducted by the Research Office, many overseas places (particularly the Asian-Pacific cities) are without taxi fuel charge. Nevertheless, Singapore, London, Philadelphia and Vancouver had made use or are currently making use of taxi fuel surcharge as an interim measure to alleviate the burden of taxi drivers from rising fuel costs. This information note studies the experience of the above four overseas places in the use of taxi fuel surcharge as an interim measure to alleviate the burden of taxi drivers from rising fuel costs. All the places studied charge taxi fares by meters. In addition, London, Philadelphia and Vancouver are similar to Hong Kong in that their fare adjustments require the approval of the relevant government authorities. In contrast, Singapore allows taxi operators to set their own taxi fares in response to market conditions.

¹ According to these taxi associations, the existing mechanism is inflexible as taxi operators can raise fares only with the Executive Council's approval and after negative vetting by the Legislative Council. In addition, rentee-drivers might not benefit from the fare increase as it might trigger subsequent taxi rental increases from taxi owners. See SCMP (2013) and Legislative Council Secretariat (2013).

2. Singapore

2.1 In Singapore, taxi operators and taxi services are regulated by the statutory body – the Land Transport Authority ("LTA") – tasked with planning, operating, and maintaining Singapore's land transport infrastructure and systems. LTA deregulated the taxi fares in 1998 and the supply of taxis in 2003. The deregulation is to inject greater competition within the taxi industry and allow the market forces to determine the supply and pricing of taxis that best meet the demand for taxi services. While taxi operators are free to set their own fares according to the services provided, they are required to inform the Public Transport Council² in advance for any fare adjustments.

2.2 In July 2008, shortly after taxi fares adjustments that took place in late 2007, a fuel surcharge of S\$0.3 (HK\$1.74) per trip was introduced by all taxi operators to alleviate the escalating diesel cost pressures on the taxi drivers at that time. Yet, the fuel surcharge was short-lived and removed in November 2008³, consequential to the fall of fuel prices after the outbreak of the global financial crisis in mid-2008 and the public criticism of the fuel surcharge. Taxi operators have not re-introduced fuel surcharge since then, notwithstanding the fluctuations in fuel prices since November 2008.

2.3 Amid a deregulated market structure, the taxi fare structures in Singapore differ among taxi operators and this causes confusions to passengers. In March 2015, the Singapore government proposed to standardize the taxi fare structure⁴. While allowing taxi operators to determine their own flag-down fares for standard and premier taxis, they must use the same distance- and time-based interval parameters for charging the unit fares.⁵ As to surcharges, taxi operators are allowed to levy time surcharges (peak period and midnight surcharges) and location-based surcharges only, and the amount charged must be the same across all taxi operators.

² Established in 1987, the Public Transport Council works closely with LTA and is responsible to regulate the services of the bus operators, bus fares and the fares of the rapid transit system.

³ See ComfortDelGro (2008), SMRT (2009), and The Straits Times (2008).

⁴ See Public Transport Council (2015).

⁵ Unit fares are based on distance travelled and waiting time. The Public Transport Council will require the unit distance travelled and unit waiting time to remain the same across all taxi companies. The unit fares will be based on every 400 metres travelled after the first kilometre to the tenth kilometre; every 350 metres travelled above 10 kilometres; and every 45 seconds of waiting time.

3. London

3.1 In 2014, there were more than 22 000 taxis and nearly 25 000 taxi drivers in London. All taxis are licensed, managed and regulated by the Transport for London, which was established in 2000 as a local government body to be responsible for public transport in Greater London. Taxi fares are normally revised each April based on changes to a cost index in use since 1981. The index, agreed with the taxi trade, combines changes in operating costs with national earnings in order to produce a change in average fares aiming at maintaining drivers' earnings net of operating costs.

3.2 Since July 2008, special provisions have been put in place to allow an extra charge to be added to taxi fares if London's average diesel cost reaches a threshold level.⁶ The fuel surcharge was first set at a fixed rate of £0.5 (HK\$6.0) per trip in July 2008⁷, and only changed once in 2009 when the Transport for London reduced it to £0.4 (HK\$4.8). At the recent board meeting in February 2015, the Transport for London approved an extra £0.4 (HK\$4.8) to be charged for each journey if London's retail diesel costs reach the threshold level of 164.5 pence per litre (HK\$19.6) between 11 April 2015 and 1 April 2016. When the diesel fuel cost rises to the trigger level, a surcharge of £0.4 (HK\$4.8) will be collected from passengers until the next annual fare review regardless of subsequent fall of fuel cost.

3.3 The Transport for London conducted a public consultation in late 2014 on taxi fare review, which included the issue of whether to extend the fuel surcharge. While some respondents felt that the fuel surcharge arrangement was confusing for passengers, the majority of respondents considered that the arrangement was the appropriate way to compensate drivers for significant mid-year rises in fuel costs before the annual tariff revision in April of each year.

⁶ The introduction of the fuel surcharge in July 2008 was in response to the surge in diesel fuel prices since early 2007 and the ensuing lobbies by taxi associations for a mid-year increase in taxi fare.

⁷ The £0.5 (HK\$6.0) surcharge was about 4.6% of the average taxi fare in 2008, which in turn corresponded to an estimated 46% increase in fuel cost. The estimation was based on the fact that fuel cost accounted for about 10% of the cost of running a taxi at that time.

4. Philadelphia

4.1 Philadelphia is the fifth most populated city in the United States with an estimated population of 1.56 million in 2014. The maximum number of taxis operating in the city has been capped at 1 600 by the Philadelphia government. Taxi industry in Philadelphia is regulated by the Philadelphia Parking Authority, which took over the regulatory function from the state public utility regulatory authority, the Pennsylvania Public Utility Commission⁸, in 2005. The Philadelphia Parking Authority is responsible for administering taxi regulations, licencing and fares. Taxi fare increase has to be initiated by the taxi trade. The last fare review was conducted in 2008 and the flag-down rate has remained at US\$2.70 (HK\$20.9) since then⁹.

4.2 At its meeting held on 23 April 2012, the Board of the Philadelphia Parking Authority approved the implementation of a fuel surcharge system for all Philadelphia taxicabs. The fuel surcharge per trip is based on the difference between the current cost of gasoline for an average trip and the state-wide average cost of gasoline for an average trip in 2003 (at US\$1.35 (HK\$10.5))¹⁰. The greater the difference, the larger will be the amount of permitted surcharge for taxicabs. On the third Friday of each month, the Philadelphia Parking Authority evaluates the current cost of gasoline for an average trip and determines the corresponding permitted surcharge (if any) to be effective on the first day of the subsequent month.

5. Vancouver

5.1 Vancouver is a coastal seaport city on the mainland of British Columbia. In Vancouver, taxi industry is jointly regulated by the Vancouver City Council as well as the Passenger Transportation Board of British Columbia. The latter was established in 2004 as the provincial authority tasked with, among other things, regulating the taxi industry, processing taxi applications, issuing licences and conducting taxi fare review. The Vancouver City Council must follow the taxi regulations and fare review approved by the Passenger

⁸ The Pennsylvania Public Utility Commission was created in 1937 to regulate the intrastate rates and services of public utilities.

⁹ The Research Office has written to the Philadelphia Parking Authority for information about the taxi fare review mechanism in Philadelphia. As at the publication of this information note, the Authority has not responded to the request.

¹⁰ The average cost for a gallon of unleaded regular gasoline cost remained fairly stable at US\$1.35 (HK\$10.5) in 2003 and has surged since then. As such, 2003 has been taken as the reference year for calculating the amount of fuel surcharge.

Transportation Board. Nevertheless, it can initiate taxi fare review subject to the approval of the Passenger Transportation Board.

5.2 The Passenger Transportation Board reviews taxi fare every year. Taxi fare review is based on a Taxi and Limousine Cost Index ("TLCI"), which was recently introduced in mid-April 2015 to replace the Taxi Cost Index ("TCI") that had been in place since 2002. With the use of TLCI, taxi fare increase is no longer based on industry-specific data and consumer price index. Instead, it is based solely on the consumer price index, which is accepted by both passengers and the taxi industries as objective and transparent data. Before the introduction of TLCI, the taxi fare reviews were based on TCI which was made up of four weighted cost components to reflect the average cost of operating a taxi in British Columbia. These four cost components were wages, fuel, taxi insurance and consumer price index¹¹.

5.3 In both 2005 and 2008, the Passenger Transportation Board implemented temporary fuel surcharges¹² (4.5% and 3.5% respectively) between regularly-scheduled TCI rate reviews which were conducted every two years at that time. The surcharges gave taxi operators temporary relief for fuel price surge that was considered significant and sustained. The surge in those years pushed fuel costs at least 30% higher than the average price for the last calendar year in which a TCI rate increase was implemented.

5.4 In March 2012, the Passenger Transportation Board commissioned a consultant to review the methodology of TCI against its goals of effectiveness. After the review, the Board decided to review TCI data each second quarter instead of once every two years and to eliminate the temporary fuel surcharge. With TCI being more responsive to fuel price changes, the taxi representatives agreed to the end of temporary fuel surcharge at its December 2012 meeting. Earlier on, there had been criticisms from the key stakeholders against the temporary fuel charge arrangement in terms of (a) the lag time between the increase of fuel cost and the implementation of fuel surcharge, and (b) the costs and downtime of changing taxi meters with the involvement of professional meter technicians and regulators in meter changes, inspections and re-sealing.

¹¹ For example, the calculation of the 2013 TCI was based on the following weightings: 31% for wages, 19% for fuel, 13% for insurance, and 37% for consumer price index.

¹² At that time, the Passenger Transportation Board would look at fuel surcharges for taxis when fuel price was 25% higher than it was for the last TCI. When the 25% threshold was reached, the Board would first consider whether to approve a fuel surcharge, and if approved, when to start the fuel surcharge and the amount to be imposed. The temporary fuel surcharge would remain in effect until the next TCI increase was implemented or until the Board decided to end or vary a surcharge due to a significant change in fuel prices.

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